CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 21, 2004

S. 2400
National Defense Authorization Act for Fiscal Year 2005

As reported by the Senate Committee on Armed Services on May 11, 2004

SUMMARY

S. 2400 would authorize appropriations totaling $419 billion for fiscal year 2005 for the military functions of the Department of Defense (DoD), for the activities of the Department of Energy (DOE), and for other purposes. In addition, the bill would prescribe personnel strengths for each active-duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts would result in additional outlays of about $415 billion over the 2005-2009 period.

The bill also contains provisions that would raise the costs of discretionary defense programs over the 2006-2009 period. CBO estimates that those provisions would require additional appropriations of almost $12 billion over those four years. The bulk of those costs would stem from implementing sections that would increase the active-duty endstrength of the Army over the 2005-2009 period to support operations in Iraq and Afghanistan, and that would expand health care for reservists.

The bill contains provisions that would both increase and decrease direct spending, primarily from changing how disability retirement and survivor annuities would be calculated for certain reservists and from selling assets from the National Defense Stockpile. (Asset sale receipts are a credit against direct spending.) We estimate that those provisions combined would reduce direct spending by $78 million over the 2005-2009 period, but increase such spending by $1 million over the 2005-2014 period.

S. 2400 contains both intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) but CBO estimates that the annual cost of those mandates would not exceed the thresholds established in UMRA ($60 million in 2004 for intergovernmental mandates and $120 million in 2004 for private-sector mandates, adjusted annually for inflation). One section of the bill is excluded from review under UMRA.

S. 2400 would benefit state and local governments by authorizing aid for certain local schools with dependents of defense personnel and conveying certain parcels of land.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2400 is shown in Table 1. Most of the costs of this legislation fall within budget function 050 (national defense).

TABLE 1. BUDGETARY IMPACT OF S. 2400, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2005

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Defense Programs						
Budget Authority [a]	457,142	0	0	0	0	0
Estimated Outlays	450,116	161,778	48,103	16,051	6,332	2,833
Proposed Changes						
Estimated Authorization Level	0	419,197	0	0	0	0
Estimated Outlays	0	282,435	93,580	26,620	8,674	3,397
Spending Under S. 2400						
for Defense Programs						
Estimated Authorization Level[a]	457,142	419,197	0	0	0	0
Estimated Outlays	450,116	444,213	141,683	42,671	15,006	6,230
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)						
Estimated Budget Authority	0	2	4	6	8	10
Estimated Outlays	0	2	4	6	8	10
ASSET SALES [b]						
Estimated Budget Authority	0	-23	-15	-15	-15	-40
Estimated Outlays	0	-23	-15	-15	-15	-40

NOTE: The estimated authorization level under "Proposed Changes" includes amounts specifically authorized by the bill plus an inferred authorization for the Coast Guard Reserve based on authorized endstrength levels. The bill also implicitly authorizes programs in 2006-2009; those authorizations are not included above (but are shown in Table 3) because funding for those programs would be covered by specific authorizations and appropriations in future years.

a. The 2004 level is the amount appropriated for programs authorized by the bill (including $65,147 million in appropriations in Public Law 108-106, the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan, 2004). This level is slightly lower than the comparable figure presented in CBO's cost estimate of H.R.4200, the National Defense Authorization Act for Fiscal Year 2005, as reported by the House Committee on Armed Services on May 14, 2004. H.R. 4200 would authorize appropriations for some existing programs that would not be authorized under S. 2400.

b. Asset Sale receipts are a credit against direct spending.

BASIS OF ESTIMATE

Spending Subject to Appropriation

The bill would specifically authorize appropriations totaling $419.1 billion in 2005 (see Table 2).[1] Nearly all of that amount falls within budget function 050 (national defense), while a small fraction of that total—$61 million for the Armed Forces Retirement Home—falls in budget function 600 (income security).

The estimate assumes that the amounts authorized will be appropriated near the start of fiscal year 2005. Estimated outlays are based on historical spending patterns for existing programs.

The bill does not address additional appropriations for 2005 that will be required to fund ongoing operations in Iraq and Afghanistan. Such amounts will add to the appropriations authorized by the bill.

The bill also contains provisions that would affect various costs, mostly for increases in endstrength, military compensation, and health benefits that would be covered by the fiscal year 2005 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs covered by the authorizations in the bill for 2005, these provisions would raise estimated costs by almost $12 billion over the 2006-2009 period. That total does not include the costs of sections 616 and 1101 because CBO cannot estimate those costs at this time. Those sections pertain to pay for certain military personnel and educational assistance for certain civilian personnel. The provisions identified in Table 3 are described below, including information about CBO's estimates of costs for those provisions.

1. After adding an estimated authorization of $120 million for the Coast Guard Reserve, the bill would authorize appropriations totaling $419.2 billion.

TABLE 2. SPECIFIED AUTHORIZATIONS IN S. 2400

Category	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
Department of Defense (DoD)					
Military Personnel					
Authorization Level	104,535	0	0	0	0
Estimated Outlays	102,220	1,479	209	105	0
Operation and Maintenance					
Authorization Level	139,519	0	0	0	0
Estimated Outlays	102,585	29,213	4,483	1,679	713
Procurement					
Authorization Level	78,591	0	0	0	0
Estimated Outlays	24,631	29,754	14,348	5,287	2,072
Research and Development					
Authorization Level	68,588	0	0	0	0
Estimated Outlays	36,673	25,441	4,998	869	232
Military Construction and Family Housing					
Authorization Level	9,741	0	0	0	0
Estimated Outlays	2,411	3,484	2,174	918	430
Revolving and Management Funds					
Authorization Level	2,895	0	0	0	0
Estimated Outlays	1,955	685	148	67	33
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	735	-159	-315	-159	-51
Undistributed Reduction					
Authorization Level	-1,670	0	0	0	0
Estimated Outlays	-478	-723	-314	-92	-32
Subtotal, Department of Defense					
Authorization Level	402,199	0	0	0	0
Estimated Outlays	270,732	89,174	25,731	8,674	3,397
Atomic Energy Defense Activities (DOE)					
Authorization Level	16,817	0	0	0	0
Estimated Outlays	11,543	4,385	889	0	0
Other [a]					
Authorization Level	61	0	0	0	0
Estimated Outlays	52	9	0	0	0
Total Specified Authorizations					
Authorization Level [b]	419,077	0	0	0	0
Estimated Outlays	282,327	93,568	26,620	8,674	3,397

NOTE: DOE = Department of Energy.

a. This authorization is for the Armed Forces Retirement Home.
b. This amount encompasses nearly all of the proposed changes for authorizations of appropriations for 2005 shown in Table 1; it does not include the estimated authorization of $120 million for the Coast Guard Reserve, which is shown in Table 3.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 2400 [a]

	By Fiscal Year, in Millions of Dollars				
Category	2005	2006	2007	2008	2009
MULTIYEAR PROCUREMENT					
Lightweight 155-Millimeter Howitzer	-38	-40	-40	-45	0
FORCE STRUCTURE					
Restrictions on Retiring Air Force Aircraft	125	0	0	0	0
Navy and Air Force Active-Duty Endstrength	-430	-879	-903	-930	-958
Reserve Component Endstrengths	43	89	92	95	99
Army Active-Duty Endstrengths	969	1,487	2,547	3,148	3,246
Coast Guard Reserve Endstrength	120	0	0	0	0
COMPENSATION AND BENEFITS					
Expiring Bonuses and Allowances	621	551	332	224	172
Extending Increase in Family Separation and Imminent Danger Pay	306	329	271	265	268
Two-year Extension of Telecommunication Benefit	86	69	0	0	0
Increase Federal Share of Guard Challenge Program	6	11	17	17	17
New Bonus for Reserve Officers	1	1	1	1	1
DEFENSE HEALTH PROGRAM					
TRICARE Demonstration Project	23	58	71	78	84
Pre-Activation Health Care Coverage	121	161	160	159	156
Transitional Health Care Coverage	269	359	356	353	348
OTHER PROVISIONS					
Enhancement of Energy Employees Compensation Authorities	2	5	5	5	5
TOTAL ESTIMATED AUTHORIZATIONS					
Estimated Authorization Level [a]	2,224	2,201	2,909	3,370	3,438

NOTES: For every item in this table except the authorization for the Coast Guard Reserve, the 2005 levels are included in Table 2 as amounts specifically authorized to be appropriated in the bill. Amounts shown in this table for 2006 through 2009 are not included in Table 1.

a. These amounts do not include the cost of sections 616 and 1101 because CBO cannot estimate such costs at this time.

Multiyear Procurement. In most cases, purchases of weapon systems are authorized annually, and as a result, DoD negotiates a separate contract for each annual purchase. In a small number of cases, the law permits multiyear procurement; that is, it allows DoD to enter into a contract to buy specified annual quantities of a system for up to five years. In those cases, DoD can negotiate lower prices because its commitment to purchase the weapons gives the contractor an incentive to find more economical ways to manufacture the weapon, including cost-saving investments. Annual funding is provided for these multiyear contracts, but potential termination costs are covered by an initial appropriation.

Section 122 would authorize the Secretary of the Navy to enter into a multiyear contract to purchase lightweight 155-millimeter howitzers, beginning in 2005, after the Secretary determines through operational testing that the howitzer is effective for fleet use. Based on information provided by the Navy, CBO assumes that the Navy would contract to purchase howitzers for the Marine Corps and the Army under this authority—buying 223 howitzers for the Marine Corps over the 2005-2007 period and another 233 howitzers for the Army over the 2005-2008 period. CBO estimates that savings from buying these howitzers under a multiyear contract would total $163 million (or about $41 million a year) over the 2005-2008 period. Funding requirements to purchase these howitzers would total $841 million over the 2005-2008 period (instead of the $1,004 million that would be needed under annual contracts).

Restriction on Retiring Air Force Aircraft. Section 131 would prohibit the Air Force from retiring any KC-135E tanker aircraft in 2005. According to information provided by DoD, the Air Force currently plans to retire 41 of these planes in that year, and projects savings of $107 million in 2005 from doing so.

Section 132 also would prohibit the Air Force from retiring any F-117 aircraft in 2005. The Air Force currently plans to retire 10 such aircraft in 2005 and estimates it would avoid nearly $18 million that year in costs for flying hours, operations and maintenance, and aircraft modification.

Military Endstrength. Title IV of the bill would authorize active and reserve endstrength levels for 2005. The bill would specifically authorize appropriations of $104.5 billion for military pay and allowances and other costs in 2005.

Under sections 401, 411, and 412, the authorized endstrengths for active-duty personnel and personnel in the selected reserves would total about 1,383,000 and 861,000, respectively. Of those selected reserves, about 72,000 would serve on active duty in support of the reserves.

Section 401 would decrease the Navy's active-duty endstrength by 7,900 and increase the Air Force's active-duty endstrength by 400. CBO estimates that the net decrease in endstrength between the Navy and the Air Force would cut costs for salaries and other expenses for these services by $430 million in the first year and about $920 million annually in subsequent years.

Sections 411 and 412 would authorize the endstrengths for the reserve components, including those who serve on active duty in support of the reserves. Under this bill, the Selected Reserve would experience a drop in endstrength numbers of 2,430, mostly in the Naval Reserve, while the endstrength for reservists who serve on active duty in support of the reserves would increase by 1,669. CBO estimates that the net result of implementing these provisions would be an increase in costs for salaries and other expenses for reservists of $43 million in 2005 and about $94 million annually in subsequent years, compared to costs for the authorized endstrength levels for 2004.

Section 402 would give the Secretary of Defense the authority to increase the Army's active-duty endstrength by up to 30,000 as necessary over the 2005-2009 period to support its missions in Iraq and Afghanistan. Based on plans already announced by the Army for increasing its endstrength to that number by 2007, CBO estimates that implementing this provision would cost $969 million in 2005 and about $2.6 billion annually in subsequent years through 2009, when compared to the authorized endstrength levels for 2004.

The bill would also authorize an endstrength of 10,000 servicemembers in 2005 for the Coast Guard Reserve. This authorization would cost about $120 million and would fall under budget function 400 (transportation).

Compensation and Benefits. S. 2400 contains several provisions that would affect military compensation and benefits for uniformed personnel.

Expiring Bonuses and Allowances. Several sections would extend DoD's authority to pay certain bonuses and allowances to current personnel. Under current law, most of these authorities are scheduled to expire in December 2004, or three months into fiscal year 2005. The bill would extend these authorities through December 2005. Based on data provided by DoD, CBO estimates that the costs of these extensions would be as follows:

- Payment of reenlistment bonuses for active-duty personnel would cost $329 million in 2005 and $185 million in 2006; enlistment bonuses for active-duty personnel would cost $82 million in 2005 and $141 million in 2006;

- Various bonuses for the Selected and Ready Reserve would cost $81 million in 2005 and $93 million in 2006;

- Special payments for aviators and nuclear-qualified personnel would cost $89 million in 2005 and $95 million in 2006; and

- Authorities to make special payments and give bonuses to certain health care professionals would cost $40 million in 2005 and $37 million in 2006.

Most of these changes would result in additional, smaller costs in subsequent years because payments are made in installments.

Extending Increases in Family Separation Allowance and Imminent Danger Pay. Sections 603 and 617 would permanently extend the current rates for the family separation allowance and imminent danger pay, which are $250 per month and $225 per month, respectively. Under current law, these benefits will revert to the previous amounts of $100 and $150, respectively, after December 31, 2004. Based on information from DoD about the number of servicemembers currently receiving those benefits and CBO assumptions concerning how many might be eligible for these allowances in the future, CBO estimates that implementing these sections would cost $306 million in 2005 and $1.4 billion over the 2005-2009 period.

Two-Year Extension of a Telecommunications Benefit. Section 341 would extend until September 30, 2006, a telecommunications benefit to those serving in Operation Iraqi Freedom or Operation Enduring Freedom to enable servicemembers to call home without charge. This benefit was established in the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136) and, under current law, is not to exceed $40 in value per person per month. CBO has been unable to determine how the department has implemented this benefit. Thus, in the absence of additional information, we assume that all qualifying personnel would receive a prepaid phone card in 2005 and 2006 valued at $40 for each month they serve directly supporting operations in Iraq or Afghanistan. Based on information from DoD about current troop levels in those areas and CBO assumptions about future troop levels in those locations, CBO estimates that extending this benefit would cost $86 million in 2005 and $69 million in 2006.

Increasing the Federal Share of the Costs of the National Guard Youth Challenge Program. Section 573 would increase the federal government's share of the costs of operating a residential program run by the National Guard to improve the life skills and employment potential of young people. Under current law, the federal government pays for 60 percent of the costs of running this program and the states pay for the remainder. Section 573 would increase the federal government's share by five percentage points each year until it reached 75 percent in 2007. DoD estimates that the cost to operate this program will cost the federal government about $66 million in 2005. Based on this figure, CBO estimates that implementing this provision will cost an additional $6 million in 2005, $11 million in 2006, and about $17 million, annually thereafter.

New Bonus for Reserve Officers. Section 620 would authorize the Secretary to pay a bonus of up to $6,000 for new officers of the Selected Reserve who either possess critical skills or serve in a unit or a particular pay grade that is experiencing a manpower shortage. Information from DoD indicates that the Marine Corps is the only service prepared to offer this bonus in 2005. Based on data from DoD indicating that about 125 Marine Corps Reserve officers would be given this bonus each year, CBO estimates that implementing this provision would cost about $1 million annually. Should other services decide to use this authority, however, the costs for this provision would increase.

Authority to Terminate Assignment Incentive Pay. Section 616 would give DoD authority to terminate assignment incentive pay for servicemembers who take terminal leave. While CBO cannot estimate potential savings at this time because DoD has no data regarding the number of people who might be affected by this provision, we expect savings to be small because most servicemembers do not choose an overseas assignment as their last post before retiring.

Defense Health Program. Title VII contains a number of provisions that would affect DoD health care and benefits. Three sections would specifically provide health care benefits for reservists. Using information from DoD, CBO estimates there are about 1.1 million reservists in the Ready Reserve and about 50 percent of those reservists have dependents. Based on data from DoD, CBO also estimates that the average cost of providing health care in 2005 would be about $2,200 for single reservists and $7,700 for reservists with dependents.

TRICARE Demonstration Project. Section 701 would require DoD to conduct a demonstration project, with no expiration date, which would give certain reservists the ability to receive benefits from TRICARE, DoD's general health care program, even if they have not been called to active duty. Under current law, reservists and their families can participate in TRICARE only while the reservist is called to active duty, with one exception. Current law, which expires on December 31, 2004, allows reservists who are unemployed or without employer-sponsored health insurance to enroll in TRICARE, provided the reservist pays a premium equal to 28 percent of DoD's expected costs for this benefit. As of the date of this estimate, DoD has not implemented the law allowing such enrollment.

Under section 701, DoD would be required to conduct the demonstration project to allow members of the Ready Reserve who lack employer-sponsored insurance or who are unemployed to receive benefits from TRICARE program. Section 701 does not specify how benefits would be provided to reservists not called to active duty, but CBO expects that the demonstration project would be similar to the expiring benefit described above. Assuming the demonstration project is conducted at five sites (a number based on previous demonstration projects), it would likely cover as many as 100,000 reservists, or about 10 percent of the total number of reservists in the Ready Reserve. Using information from the General Accounting Office about the percentage of reservists without health care insurance, CBO estimates that about 9,000 of these reservists would enroll in the TRICARE program under this demonstration project in 2005. Based on data from DoD, CBO estimates that in 2005 the average cost to DoD for those reservists who purchase self-only coverage would be about $1,600 while the average cost to DoD of self-and-family coverage would be about $5,500. In addition to these amounts, enrolled reservists would pay about $600 for self-only coverage and $2,200 for self-and-family coverage. Assuming that enrollment would double in 2006 before leveling off at about 18,000 reservists, CBO estimates that implementing this provision would cost $23 million in 2005 and $314 million over the 2005-2009 period, assuming appropriation of the estimated amounts. If DoD should chose to conduct this demonstration project at more than, or fewer than, five sites, the number of eligible reservists and the subsequent costs would vary accordingly.

Pre-Activation Health Care Coverage. Section 702 would permanently extend a requirement, which expires on December 31, 2004, that DoD provide health care coverage to reservists, and their families, prior to a reservist reporting to active duty. Under section 702, reservists would be eligible to receive health care from the time the reservist is notified about activation to the time the reservist reports for active duty up to a maximum of 90 days. Based on information from DoD, CBO estimates that in 2005 this provision would affect about 430,000 reservists called to active duty and that these reservists would be eligible for about two months of health care coverage given DoD's current practice of issuing orders to active duty with less than 90 days notification. CBO estimates that about 50 percent of single reservists and 40 percent of reservists with dependents would use TRICARE during this two-month period at an estimated monthly cost of $180 for singles and $640 for families. In addition, CBO expects that many of the remaining reservists would likely use TRICARE as a second-payer to supplement their existing health care coverage at a cost of $100 a month. Taken together, CBO estimates that implementing section 703 would cost $121 million in 2005, and $757 million over the 2005-2009 period, assuming appropriation of the estimated amounts.

Transitional Health Care Coverage. Section 705 would permanently extend an existing requirement that DoD provide health care for up to 180 days after separation to all members of the military who are involuntarily separated from active duty. Under current law, the requirement to provide 180 days of coverage will expire on December 31, 2004. After that date, a member who is involuntarily separated from the military would be eligible for either 60 or 120 days of health care coverage depending on the number of years that member served in the military. Based on information from DoD, CBO estimates that this provision would apply to about 430,000 reservists and about 45,000 other servicemembers who would be separated from active duty in 2005. According to DoD, about 85 percent would be eligible for four additional months of coverage with the remaining 15 percent eligible for two additional months of health care coverage. Section 705 also would require DoD to provide a separation physical for each member of the reserves who separates from active duty.

As with the health care coverage provided prior to activation, CBO estimates that about 50 percent of single reservists and 40 percent of reservists with dependents would use TRICARE at an estimated monthly cost of $180 for singles and $640 for families. CBO also expects that many of the remaining reservists would likely use TRICARE as a second-payer to supplement their existing health care coverage at a cost of $100 a month. Finally, based on information from DoD, CBO estimates that each separation physical would cost about $75 a separation. Accordingly, CBO estimates that implementing this section would cost about $270 million in 2005 and about $1.7 billion over the 2005-2009 period, assuming appropriation of the estimated amounts.

Enhancement of Energy Employees Compensation Authorities. Section 3143 would enhance authorities for administering subtitle D of the Energy Employees Occupational Illness Compensation Program (42 U.S.C. 7384). Under subtitle D, former DOE employees who were contractors are eligible to receive assistance in filing claims for state and private-sector workers' compensation for work-related ailments. Before such assistance is granted, physician panels review the cases to determine whether the ailments are related to work performed for DOE. Section 3143 would allow DOE to compensate members of these panels at current market rates, rather than the government rates required by current law. Based on information from DOE, CBO estimates that members of the physician panels are currently compensated at a rate of about $70 per hour. At those rates, CBO estimates it costs DOE about $4 million a year to compensate members of these review panels. If compensated at current market rates, CBO estimates panel members would receive about $125 per hour and the cost to compensate these physicians would total about $8 million a year. Thus, CBO estimates the cost of implementing this provision would average about $4 million a year over the 2005-2009 period, assuming the availability of appropriated funds.

Section 3143 also would eliminate the requirement that DOE establish working agreements with states before former energy workers receive assistance in filing for compensation. Removing this restriction would allow the processing and review of an additional 1,000 claims under subtitle D over the next five years, CBO estimates. Based on information from DOE, CBO estimates that only about 300 of these would receive positive determinations and have a willing payor for their claims. Since contractors are allowed to charge workers' compensation claims against their existing DOE contracts, implementing this provision would result in increased contract costs for the Department of Energy. Based on discussions with government analysts familiar with DOE workers' compensation issues, CBO expects that most of these claims would be for partial disability compensation and recurring medical costs and that some claims could be as little as $500 per year. Thus, CBO estimates that implementing this portion of section 3143 would cost $1 million a year over the 2005-2009 period. Taken together, CBO estimates the cost of implementing section 3143 would total $22 million over the 2005-2009 period.

Pilot Scholarship Program for Civilian Employees. Section 1101 would require DoD to establish a three-year pilot program to provide financial assistance for education in science, mathematics, engineering, and technology disciplines to civilian personnel in exchange for a commitment to work at DoD. The amount of the scholarship would be determined by the Secretary and would include tuition, fees, books, laboratory expenses, and room and board. Because DoD has not had time to determine to how many people might be offered scholarships, CBO cannot estimate the cost of implementing this pilot program at this time.

Direct Spending

The bill contains provisions that would both increase and decrease direct spending, primarily from changing how disability retirement and survivor annuities would be calculated for certain reservists and selling assets from the National Defense Stockpile. (Asset sale receipts are a credit against direct spending.) We estimate that enacting S. 2400 would result in a reduction in direct spending totaling $78 million over the 2005-2009 period, but result in an increase in such spending totaling $1 million over the 2005-2014 period (see Table 4).

Disability Retirement and Survivor Annuities for Reservists. The monthly retirement benefit for members of the uniformed services equals the member's pay base times a multiplier, where the multiplier is based on years of service or degree of disability. The pay base for members who entered the service after September 8, 1980, and are retiring from active duty is calculated under the "high-36" rule. Under this rule, the pay base equals basic pay averaged over the 36 months of their career when they received the highest pay.

Similarly, reservists who entered the service during this period have their pay averaged over 36 months. Reservists do not need to have been on active duty for that 36-month period, however. Under current law, their pay base is calculated using the pay they would have received, had they been on active duty for the entire 36 months. Reservists who qualify for a disability retirement while on active duty, however, have their pay base calculated over their most highly paid 36 months of active-duty service, which may include pay received many years earlier. Survivors of reservists who die on active duty, similarly have their survivor's benefits calculated using the members' highest 36 months of active-duty pay.

TABLE 4. ESTIMATED DIRECT SPENDING FROM PROVISIONS IN S. 2400

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)										
Disability Retirement and Survivor Annuities for Certain Reservists										
Estimated Budget Authority	2	4	6	8	10	11	13	14	16	17
Estimated Outlays	2	4	6	8	10	11	13	14	16	17
ASSET SALES [a]										
National Defense Stockpile - Increase Quantity Restrictions on Manganese Ferro Alloy Sales										
Estimated Budget Authority	-8	0	0	0	0	0	0	8	0	0
Estimated Outlays	-8	0	0	0	0	0	0	8	0	0
National Defense Stockpile - Increase Sales Targets from Earlier Authority										
Estimated Budget Authority	-15	-15	-15	-15	-40	0	0	0	0	0
Estimated Outlays	-15	-15	-15	-15	-40	0	0	0	0	0
Subtotal										
Estimated Budget Authority	-23	-15	-15	-15	-40	0	0	8	0	0
Estimated Outlays	-23	-15	-15	-15	-40	0	0	8	0	0
TOTAL CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	-21	-11	-9	-7	-30	11	13	22	16	17
Estimated Outlays	-21	-11	-9	-7	-30	11	13	22	16	17

a. Asset sale receipts are a credit against direct spending.

Since reservists usually serve on active duty for only a few weeks of each year, averaging highest pay over 36 months of active duty can include pay received many years earlier, when the reservist was in a much lower pay grade. Thus, using this method for computing disability retirement annuities or survivor benefit annuities results in a significantly lower retirement or survivor benefit than those for regular reserve retirements. Section 641 would authorize the pay base for disability retirement and survivor annuities to be calculated under the same rules as regular reserve retirements.

Based on information from DoD, CBO estimates that over the next 10 years about 2,500 new disability retirees from the reserves and over 900 new survivors would receive larger benefits if this section is enacted. Based on the average pay rate and service length of reservists who have been injured or died over the last few years, CBO estimates the annual increase in disability and survivor annuities in 2005, under section 641, would be about $3,900 and $2,350 respectively. Assuming cost-of-living and pay increases, CBO estimates that enacting section 641 would increase outlays for military retirement by $2 million in 2005, $30 million over the 2005-2009 period, and about $100 million over the 2005-2014 period.

Other Provisions. The following provisions would have an insignificant budgetary impact on direct spending:

- Sections 342 and 834 would extend pilot programs for the sale of goods and services from government arsenals and industrial facilities. The net budgetary impact of enacting these sections would be insignificant, since these facilities would also be allowed to spend any proceeds they would collect.

- Section 343 would extend a pilot program to recover refunds due for depot maintenance work on aircraft engines covered by warranties. The net budgetary impact of enacting this section would be insignificant, since DoD would also be allowed to spend any proceeds they would collect.

- Section 522 would clarify that reservists within two years of becoming eligible for a reserve retirement are not entitled to remain on active duty for those two years. The few individuals who would be affected by enacting this provision would probably retire with a somewhat smaller annuity, resulting in a slight decrease in military retirement outlays.

- Section 1011 would allow the Navy to use the proceeds from the sale of obsolete service craft and boats to pay to prepare obsolete service craft and boats for sale or exchange. Under existing law, the Navy may use proceeds from those sales, but only to purchase replacement service craft or boats. The Navy may not use the proceeds to prepare additional service craft and boats for exchange or sale. Based on information from the Navy, CBO estimates that it costs on average about $500,000 annually to prepare service craft and boats for disposal. Because the Navy already has the authority to spend these proceeds and this section would extend that authority to the preparation efforts necessary in the disposal process, CBO estimates that enacting this provision would have no net effect on direct spending.

- Section 1013 would allow the Navy to award contracts to dismantle ships based on the cost for performing the dismantling work net of the anticipated value of the scrap and reusable equipment. This section also would allow the contractors to retain the proceeds from the sale of such scrap and reusable equipment. Under current law, the Navy has the authority to award contracts for disposing of decommissioned ships. In 1999, the Navy initiated a pilot program that competitively awarded vessel scrapping work to four private companies. Under that approach, the contractor is responsible for finding a buyer for the scrap metal, but proceeds from the sale go to the Navy. CBO estimates that enacting section 1013 would have no effect on direct spending because it would neither increase or decrease receipts to the federal government since the provision would simply allow the Navy to receive credit for the expected value of the scrap in advance of its actual sale.

- Section 1064 would allow DoD to charge and retain fees for the use of trademarks. CBO estimates the net impact of the collection and expenditure of these fees would be insignificant.

Asset Sales

Section 3301 would increase by up to 50,000 short tons the restrictions on manganese ferro alloy sales from the National Defense Stockpile in 2005 contained in the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107). Based on information provided by the National Defense Stockpile Office, CBO estimates that there would be sufficient quantities of manganese ferro alloy in the stockpile to achieve those additional sales in 2005. CBO estimates that DoD would be able to expedite those sales without impacting current market prices, resulting in $8 million in additional receipts in 2005, but no net budgetary impact over the 2005-2014 period because the provision would only accelerate planned sales and would not increase total sales over the period.

Section 3302 would increase by $100 million the targets contained in the National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261 and later revised by Public Laws 106-398 and 107-107) for sales from the National Defense Stockpile through 2011. CBO estimates that there will be sufficient quantities of materials in the stockpile to achieve $15 million in receipts in 2005 and $100 million over the 2005-2009 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act of 1995 excludes from the application of that act legislative provisions that enforce the constitutional rights of individuals. CBO has determined that section 572 of S. 2400 fits within that exclusion because it enforces the right of certain individuals to vote. Other sections of the bill contain both intergovernmental and private-sector mandates as defined in UMRA, but CBO estimates that the annual cost of those mandates to state, local, and tribal governments would be insignificant and well below the threshold established for intergovernmental mandates ($60 million in 2004, adjusted annually for inflation). Costs would be unlikely to exceed the threshold for private-sector mandates as well ($120 million in 2004, adjusted annually for inflation).

Increasing the Endstrength of the Armed Services

Section 401 of the bill would increase the costs of complying with existing intergovernmental and private-sector mandates, as defined in UMRA, by increasing the number of active-duty servicemembers. Those additional 30,000 servicemembers would be eligible for protection under the Soldiers and Sailors Civil Relief Act (SSCRA) including the right to maintain a single state of residence for purposes of state and local personal income taxes and the right to request a deferral in the payment of certain state and local taxes and fees. It also requires creditors to reduce the interest rate on servicemembers' obligations to 6 percent when such obligations predate active-duty service and allows courts to temporarily stay certain civil proceedings, such as evictions, foreclosures, and repossessions. Extending these existing protections would constitute intergovernmental and private-sector mandates and could result in additional lost revenues to government and private-sector entities.

The number of active-duty servicemembers covered by SSCRA would increase by less than 5 percent in fiscal years 2005 through 2009. Based on information from the Federation of Tax Administrators, CBO expects that relatively few of these servicemembers would take advantage of the deferrals in certain state and local tax payments; the lost revenues to those governments would be insignificant.

CBO cannot determine precisely the increase in costs of the existing private-sector mandates because utilization of the provisions of SSCRA would depend on how often these soldiers are deployed and how long they are deployed, which rests on uncertain policy decisions.

Preemptions of State Authority

This bill contains two preemptions of state and local authority; such preemptions are also intergovernmental mandates as defined in UMRA. Section 1034 would exempt certain satellite data and images from state and local laws that provide public access to information. Section 1106 also would prohibit state and local governments from collecting a tax or service fee on the health benefits of certain defense employees. Benefits provided by the Non-Appropriated Fund Health Benefits Program are currently not included in the existing prohibition on such taxes and fees for other defense programs. New York is the only state that currently charges a service fee on those benefits. Under the New York Health Reform Act, the state collects an assessment based on the number of residents covered by each health plan that resides in the state. According to government sources, the losses to the state would total less than $50,000 annually.

CBO estimates that the total annual cost of these preemptions would be insignificant.

State, local, and tribal governments would benefit from other provisions in this bill. Sections 351 and 352 would authorize the appropriation of $35 million in fiscal year 2005 for payment to state and local schools with dependents of defense personnel and subtitle C would convey several pieces of land to state and local governments.

PREVIOUS CBO ESTIMATE

On May 17, 2004, CBO transmitted a cost estimate for H.R. 4200, the National Defense Authorization Act for Fiscal Year 2005, as reported by the House Committee on Armed Services on May 14, 2004. The House bill would authorize approximately $444 billion in defense funding for 2005—$25 billion more than S. 2400 would authorize. That $25 billion authorized in H.R. 4200 would be provided for DoD costs associated with continuing operations in Iraq and Afghanistan.

H.R. 4200 includes a provision, not included in S. 2400, that would eliminate the requirement that DoD make annual payments to a government trust fund to cover accruing health care costs, reducing the need for almost $13 billion in appropriations for such intragovernmental payments in 2006 and more than $56 billion over the 2006-2009 period. CBO estimated this change would not result in net governmentwide savings, however, because the corresponding collections of such accrual payments (by the federal trust fund) would decline by the same amount. In fact, the House provision could result in a net increase in federal spending if total defense appropriations are not reduced (beginning in 2006) to reflect the fact that DoD funds would no longer be needed to make the accrual payments.

(The trust fund collections are classified as offsetting receipts; but they are dependent on appropriation actions.) The provision in H.R. 4200 would replace DoD accrual payments with payments from the Treasury into the health care trust fund. Those new payments and collections would be intragovernmental transfers with no net budgetary impact.

S. 2400 would reduce direct spending by $78 million over the 2005-2009 period, while H.R. 4200 would increase such spending by $692 million over the same period. H.R. 4200 includes provisions, not included in S. 2400, that would eliminate the statutory limit on the amount DoD can invest in projects to build or renovate military family housing, phase out reductions in survivor benefit plan annuities, and repeal authority to purchase 80 KC-767 tankers. CBO estimated that enacting those provisions would increase direct spending by $692 million over the 2005-2009 period but decrease such spending by about $1 billion over the 2005-2014 period. Those totals include estimated net receipts from asset sales of $100 million over the 2005-2014 period. (These totals, however, exclude the loss of offsetting receipts for payments into the government health care trust fund mentioned above, because those collections derive from appropriation actions.)

ESTIMATE PREPARED BY:

Federal Costs:
- Defense Outlays: Kent Christensen
- Health Programs: Sam Papenfuss
- Military and Civilian Personnel: Michelle Patterson
- Military Retirement: Sarah Jennings
- Multiyear Procurement and Air Force Aircraft: David Newman
- Operation and Maintenance: Matthew Schmit
- Stockpile Sales: Raymond Hall

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Chad Goldberg

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis